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Summary

¶1. (SBU) In recent meetings with three key semi-official and private Chinese organizations that promote Chinese investment in Africa, all three stressed that they are paying more attention to political and economic risk, environmental protection, and China's reputation in Africa and around the world. Large numbers of Chinese firms are already active in Africa, but the earlier uncritical African embrace of Chinese economic engagement has evolved into a more "normal" relationship in which friction over issues such as trade deficits, job losses, and compliance with environmental and labor laws has become more commonplace. Nonetheless, China remains committed to strengthening its investment position in Africa. Post will report septel on China's official assistance to Africa, which is run principally through the Ministry of Commerce (MOFCOM), the China Export-Import Bank (China EXIM), and the China Development Bank (CDB). End summary.

CADF: Pushing 1st Billion of Equity Investment Out the Door
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¶2. (U) At the 2006 Beijing Summit of the Forum on China-Africa Cooperation (FOCAC), China's coming-out party as a major new donor and investor in Africa, President Hu Jintao pledged -- among other things -- to establish an investment fund that would eventually allocate $5 billion to support Chinese firms investing in Africa. According to MOFCOM, China had already invested more than $5 billion in Africa by the end of 2008, but President Hu's commitment was on top of existing investment flows. It led to the June 2007 launch of the China-Africa Development Fund (CADF), with a first phase of $1 billion in funding provided by the China Development Bank (CDB), one of China's three policy banks. (Note: CDB was recently given a new mandate to operate as a commercial bank, although sources tell us no major changes have yet been implemented in its modus operandi. End note.)

¶3. (SBU) CADF's modus operandi is to participate as an equity

partner (though without a controlling stake) with Chinese firms doing business in Africa in the following priority sectors: 1) agriculture; 2) transportation and energy infrastructure; 3) natural resource exploitation; and 4) industrial parks. As a risk-bearing investor that makes no loans, CADF does not add to African debt burdens (unlike China EXIM and CDB, which are lenders). Li Dongya and Zhou Chao, CADF's Managing Directors for Risk Management and Advisory Services, told econoff that CADF is 100 percent market-oriented, seeking only commercially-viable projects that it will eventually be able to sell off or transfer profitably. To date, CADF has already approved some 20 different projects in 13 different African countries in which it will invest close to $400 million, and is working hard to identify more. Several projects have already begun implementation, including a power project in Ghana with Shenzhen Energy (CADF partnered with Shenzhen Energy while CDB provided a loan for the project), a private cotton processing plant in Malawi, and ventures undertaken by SOE giants China National Steel and China National Building Materials. More information can be found at CADF's website (www.cadfund.com). (Note: Emboff asked for detailed information, including funding levels, on CADF's approved projects, but was referred to the website. We have not found much detail there either. End note.)

¶4. (SBU) Mr. Li told econoff that, as an equity partner, CADF is sensitive to risk. CADF has a three-tiered system for ranking risk in each African country that roughly corresponds to green, yellow, and red lights. Though he declined to name countries in any particular category, he said that there were several in the red light category (as per reftel A, we

suspect Zimbabwe is in this group, together with countries suffering armed violence). Li and Zhou stressed that CADF, though a commercially-oriented institution, is committed to the "principles of scientific development," meaning it works to ensure that projects it participates in abide by host country laws and are environmentally sustainable. In cases where the host country has low or non-existent environmental standards, CADF will apply Chinese standards. Mr. Li also pointed out that more Chinese companies are now using African workers, rather than importing Chinese labor. He said these moves are not based on altruism, but a hard-headed strategy for avoiding adverse pressure from both African and international stakeholders.

¶5. (SBU) CADF, which plans to establish a representative office in Johannesburg in early 2009, has recently initiated dialogues with the NEPAD Secretariat (New Partnership for African Development -- the African Union's economic development program, which seeks to attract investment and espouses good governance) and with the African Development Bank on the possibility of joint projects. Li said CADF has also exchanged some information with the World Bank.

¶6. (SBU) Li and Zhao said it was hard to grade the impact of the Global Financial Crisis (GFINC) on Chinese companies' willingness to invest abroad, pointing out that while some firms were hoarding scarce cash, others were perhaps seeking to take advantage of good bargains. They said Chinese companies operating in Africa benefit from the overall warm ties between China and the continent, Africans' desire to learn from China's successful development experience, especially in developing their export sectors, and the willingness of Chinese entrepreneurs to work hard and endure arduous conditions. On the flip side, they commented, Chinese entrepreneurs suffer from their relative lack of experience in operating overseas, ignorance of local cultures and customs, fierce international competition for lucrative projects, and infrastructure gaps that frequently leave factories idle due to lack of water or electricity.

CABC - Advising Chinese Firms How to Succeed in Africa

¶7. (U) Econoff also met with Ge Kaiyong, Director of Training for the China-Africa Business Council (CABC - visit www.cabc.org.cn for more info), which was jointly organized in 2005 by the UN Development Fund, the China International Center for Economic and Technical Exchanges (CICETE - MOFCOM's entity for liaison with UN economic agencies), and the Guangcai Program, a coalition of Chinese private companies that was established in 1994 to contribute to the fight against poverty. CABC's mandate is to support Chinese private enterprises that want to enter the African market by providing information on potential funding sources, explaining African culture, organizing trade missions, and conducting market research. At present, CABC has 280 member companies and four satellite offices in Wuhan, Hong Kong, Macau, and Hengshui (Hebei province).

¶8. (U) For the past four years, CABC has focused its work on six core African countries recommended by the UNDP: Cameroon, Nigeria, Ghana, Kenya, Tanzania, and Mozambique, but it plans to expand its geographic scope this year. CABC does not have offices in Africa, Mr. Ge said, but works closely with Chinese embassies, host government investment promotion agencies, and UNDP offices in those countries. CABC also partners with CADF, China EXIM, CDB, and African banks like Cameroon First Bank, Ghana's Echo Bank, South Africa's Standard Bank, and the World Bank's International Finance Corporation to help Chinese entrepreneurs find appropriate financing. (Note: Mr. Ge said that China EXIM had been leading the charge in financing Chinese economic activity in Africa, but that CDB and CADF were quickly catching up. Post intends to meet with officials from EXIM and CDB to discuss their respective roles in promoting Chinese economic relations with Africa in the near future. End note.) Likewise, CABC recommends that its members consider

partnering with Chinese state-owned enterprises in Africa, given the resources and experience many of these SOEs have to offer and the difficult conditions Africa poses for small companies.

¶9. (U) CABC is an active match-maker. According to Mr. Ge, it worked with UNCTAD in setting up a trade promotion show in Nairobi in 2006, co-hosted with the Tanzanian government and UNDP a China-Africa Business Forum in May 2008 that attracted more than 100 Chinese and 200 African companies (CABC hopes to replicate this event each year with a different core African partner), and plans to be involved in UNCTAD's 12th annual meeting scheduled to take place in Accra, Ghana in April 2009. In addition, CABC has led annual high-level business trips to Africa. In all of these cases, CABC arranged briefings for the Chinese participants beforehand on cultural and language barriers and the ins and outs of operating successfully in Africa (with presentations by Chinese diplomats formerly posted to Africa and African diplomats stationed in Beijing), and then helped set up one-on-one meetings with potential African partners. Mr. Ge said CABC has helped members with a number of big deals, for example, bringing a delegation from Ghana to Shenzhen regarding the power project mentioned in para 2, which is expected to begin generating electricity this year. He also noted that Huawei (a CABC member) has a huge training center in Nigeria and Huali Ketai, a Chongqing-based pharmaceutical company (another member) doing anti-malaria work in several African countries, is considering opening a manufacturing plant in Tanzania.

¶10. (SBU) Like the CADF officials, Mr. Ge said Chinese entrepreneurs face some serious challenges in Africa, including the slower pace of making things happen, different cultural and legal environments, and some self-inflicted wounds resulting from the cavalier attitude of some Chinese businessmen during the 2000-2006 period, when Chinese investment in Africa was growing exponentially. There had been a bit of a reality check since then, he said, noting

Chinese investment scandals in some African countries and growing protectionism in others like Nigeria, which has effectively prohibited Chinese imports of a range of textile and footwear products. In the same vein, Wang Hongyi, an Africa expert at the China Institute of International Studies, commented to emboffs that if China isn't more careful, it will come to be seen by Africans as just another colonial exploiter.

¶11. (SBU) Mr. Ge said China understands the rationale for better balancing its trade relationship with Africa, as evidenced by recent tariff reductions on hundreds of African imports. (Note: MOFCOM announced last week that two-way trade reached a record of $106.8 billion in 2008, with Africa exporting mostly raw materials and China exporting mostly manufactured goods. End note.) With regard to poor behavior on the part of Chinese businesses operating in Africa, Mr. Ge said CABC is working hard to sensitize its members to cultural, legal, and environmental issues and promote corporate social responsibility, noting that CABC chairman Hu Deping (son of former Communist Party Secretary Hu Yaobang, whose death sparked the 1989 Tiananmen movement) attended the 2nd UN Global Compact Leaders Summit chaired by UN Secretary General Ban-ki Moon in July 2008 in Geneva. The UN Global Compact espouses corporate social responsibility standards in human and labor rights, environmental protection, and anti-corruption.

Private Consultant Also in the Mix

¶12. (SBU) Econoff also met with the head of Africa Investment Net (AIN), a private consulting company that does the same type of work as the CABC (i.e., education, match-making, and 3-4 trade missions annually with interested companies), except for paying clients (both SOEs and, increasingly over the past several years, private firms). AIN (see www.africa-invest.net for more details) was established in

1999 by Mr. Wang Wenming, a former MOFCOM official focused on Africa, including a tour at the PRC Embassy in Cairo. Wang said that business was picking up as Chinese companies were facing a tougher economic environment at home and were looking for overseas investment opportunities. He said his clients were focused on establishing factories (particularly for construction materials) and shopping centers in Africa to serve local consumers and avoid high tariffs on Chinese consumer products in key African markets like South Africa, Nigeria, Egypt, and Kenya. He said there was also some interest in agricultural ventures related to biofuels and to growing vegetables popular among the sizable Chinese communities in countries like Sudan (50,000), South Africa (400,000), and Nigeria (70,000). Wang echoed the concerns we heard at CADF and CABC about Chinese firms (especially smaller ones) employing exploitative business practices that sullied China's reputation and made it harder for others to do business in Africa, and said he spent much of his time persuading clients to follow more economically and politically sustainable business models. Incidentally, Wang is participating in an African Business Conference being held February 21-22 at Harvard Business School, where he will speak on a panel entitled "China and Africa: Friends or Foes?"

Comment

¶13. (SBU) China's economic footprint in Africa is large and will continue to grow, given the high tolerance for risk and arduous working conditions of Chinese entrepreneurs, Beijing's firm commitment to promoting investment there, and the welcome mat rolled out by many African governments for this relatively new, less-conditional, and very large source of international financing (see reftels B-F). Though the problems related to corporate misconduct discussed by our

interlocutors are real and may hasten the end of the China-Africa honeymoon phase, the hard benefits to both sides' economic interests are substantial and not going away (see reftel G). For Africa, more investment with less conditions. For China, access to raw materials and new consumer markets. And while the Chinese are still willing to do business in countries and in ways that Westerners will not, many are beginning to understand that good corporate practices benefit not just African communities and habitats, but their own long-term business (and political) interests. This is manifested not only in their rhetoric, but in Chinese outreach to the AU's NEPAD, the Africa Development Bank, various UN bodies, and the World Bank. This could serve as a foundation for U.S.-China dialogue on our respective economic programs in Africa. End comment.
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